

Discretionary Incentive Program Overviews: Job Development Investment Grant (JDIG) and One North Carolina Fund (One NC)

Revenue Laws Study
Committee

March 12, 2014



FISCAL RESEARCH DIVISION
A Staff Agency of the North Carolina General Assembly

Job Development Investment Grant

G.S. 143B 437.50

- Seeks to stimulate economic activity and create new jobs by providing a discretionary incentive that offers sustained annual grants directly to new and expanding businesses statewide, measured against a percentage of withholding taxes (10% to 75%) paid by new employees
- Created in 2002 and first grants were awarded in 2003; authority to award new grants expires January 1, 2016

Job Development Investment Grant

GOVERNANCE

- Overseen by the **Economic Investment Committee**, which consists of five members:
 - Secretary of Commerce,
 - Secretary of Revenue,
 - Director of the Office of State Budget and Management,
 - One Speaker appointee, and
 - One President Pro Tempore appointee

Job Development Investment Grant

ELIGIBILITY

- Awards must:
 - Be competitive with another state/country and necessary for the project to locate or expand in North Carolina
 - Pass an economic model that demonstrates a net benefit to North Carolina, as based on projected tax revenues
 - Be provided to a business (retail & sports teams are not eligible, except for motor sports racing) and creates a minimum number of jobs (based on the county's tier designation; Tier 1 is 10, Tiers 2 or 3 is 20)

Job Development Investment Grant

TERMS

- The total amount paid out in any single grant year to all companies awarded a grant in the same calendar year cannot exceed \$15 million; this cap translates to a maximum potential liability of \$180 million over a 12-year grant period (maximum term length) for all businesses awarded a grant in the same calendar year (S.L. 2013-360 modified liability to be \$22.5 million for FY 2013-15 Biennium and \$7.5 million for 7/1/15 to 12/31/15)

Job Development Investment Grant

GENERAL ASSEMBLY DETERMINED LIABILITY CAPS

- If Commerce fully utilized the permissible liability caps and companies performed at maximum levels, the JDIG program would have cost \$2.7 billion

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	TOTAL
2003	10	10	10	10	10	10	10	10	10	10	10	10													\$ 120
2004		15	15	15	15	15	15	15	15	15	15	15	15												\$ 180
2005			15	15	15	15	15	15	15	15	15	15	15	15											\$ 180
2006				30	30	30	30	30	30	30	30	30	30	30	30										\$ 360
2007					25	25	25	25	25	25	25	25	25	25	25	25									\$ 300
2008						25	25	25	25	25	25	25	25	25	25	25	25								\$ 300
2009							15	15	15	15	15	15	15	15	15	15	15	15							\$ 180
2010								15	15	15	15	15	15	15	15	15	15	15	15						\$ 180
2011									15	15	15	15	15	15	15	15	15	15	15	15					\$ 180
2012										15	15	15	15	15	15	15	15	15	15	15	15				\$ 180
2013											15	15	15	15	15	15	15	15	15	15	15	15			\$ 180
2014												22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5		\$ 270
2015													7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	\$ 90
TOTAL	\$ 10	\$ 25	\$ 40	\$ 70	\$ 95	\$ 120	\$ 135	\$ 150	\$ 165	\$ 180	\$ 195	\$ 217.5	\$ 215	\$ 200	\$ 185	\$ 155	\$ 130	\$ 105	\$ 90	\$ 75	\$ 60	\$ 45	\$ 30	\$ 7.5	\$ 2,700

Job Development Investment Grant

COMMUNITY ECONOMIC DEVELOPMENT AGREEMENT

- “is binding and constitutes a continuing contractual obligation of the State and the business”
- “is a binding obligation of the State and is not subject to State funds being appropriated by the General Assembly”
- Contains recapture provisions
- Must be reviewed and signed by the State Attorney General

Job Development Investment Grant

MET LIFE EXAMPLE

<u>JDIG Annual Payment Caps</u>				
Years		To MetLife	To Utility Fund	Total
1	2014	\$5,093,250	\$1,697,750	\$6,791,000
2	2015	\$7,470,750	\$2,490,250	\$9,961,000
3 to 12	2016 to 2025	\$7,470,750	\$2,490,250	\$9,961,000

Minimum Required Investment by Dec. 31st 2015: \$112.95 M
(representing 90% of total stated investment, \$125.5 M)

Minimum Average Annual Salary for New Jobs: \$65,513 each grant year

<u>JDIG MetLife Job Creation Targets & Minimums*</u>			
Years		Total New Jobs for Project	Minimum to Avoid Default
1	2014	1,843	1,474
2	2015	2,622	2,098
3 to 12	2016 to 2025	N/A	Retain 2,098

* For entire 12 year period, the company is required to retain 143 pre-existing positions.

Job Development Investment Grant

PROCESS

- Before grant disbursement,
 - The grantee must file a Grantee Annual Report (GAR) by March 1 for the preceding calendar year, with a filing fee
 - The grantee must achieve at least an 80% compliance rating
 - The Department of Revenue must certify:
 - That the business has no overdue tax debts, and
 - The amount of withholdings received in the preceding year from the business on eligible positions

Job Development Investment Grant

FUNDING & LIABILITY

- Office of State Budget & Management cash flows the grant payments to Commerce for disbursement to companies
- \$63 million recurring appropriation (in FY 2014-15), adjusted by the General Assembly as based on Commerce's Annual Funding Study (April 1st)
- General Fund appropriations pay for existing award commitments made in prior years. Future grants to be made under the authority of the liability cap will increase costs
- If companies perform at maximum levels and Commerce fully uses the remaining liability cap, payments could extend to FY 2028-29 or beyond and total over \$1 billion

Job Development Investment Grant

PERFORMANCE

JDIG, 2007 -2013											
Initially Projected							Actual Performance				Remaining Potential Liability to Companies
Number of Awards	Initial Awards Available to Companies	Initial Awards Available to Utility Fund	Minimum Required New Jobs	Minimum Required Retained Jobs	Initial Projected Cost Per Job	Disbursement to Companies	Jobs Created	Jobs Retained	Cost per Actual Job Created		
Active	98	\$535,705,900	\$157,543,100	27,693	31,985	\$19,344	\$14,593,285	8,492	12,715	\$1,718	\$505,182,800

Source: NC Department of Commerce, October, 2013 Economic Development Grant Report

Payments to nine companies have been recaptured, totaling over \$2.5 million

Company		Amount Recaptured
1	Brunswick Corporation	\$83,524
2	Dell Products LP	\$1,512,000
3	Volvo Construction Equipment	\$69,247
4	General Electric Company II	\$411,692
5	Novo Nordisk	\$129,750
6	ITG Automotive Safety Textiles, LLC (Narricot Industries)	\$13,780
7	Headway Corporation	\$50,175
8	GE-Hitachi Nuclear Energy Americas LLC	\$199,993
9	Chris-Craft Corporation	\$54,212

Source: NC Department of Commerce, October, 2013 Clawback Report

One North Carolina Fund

G.S. 143B 437.70

- Seeks to stimulate economic activity and create new jobs by providing a discretionary incentive “allocated to local governments for use in connection with securing commitments for the recruitment, expansion, or retention of new and existing businesses”
- Created in 1993 as the Governor’s Industrial Recruitment Competitiveness Fund

One North Carolina Fund

GOVERNANCE

- Commerce Finance Center recommends funding to Governor, who determines the final allocation.
- In the Governor's absence and at the direction of his Office, the Secretary of Commerce may prepare and send the award letter.

One North Carolina Fund

ELIGIBILITY

- A local unit of government must agree to equally match the One NC award amount
- Companies must:
 - Agree to meet an average wage test, ensuring that the average wage of all full-time workers meets or exceeds the county's wage standard
 - Be looking to relocate or expand to another region, therefore making this award competitive

One North Carolina Fund

ELIGIBILITY

- Purposes:
 - Installation or purchase of equipment
 - Structural repairs, improvements, or renovations of existing buildings to be used for expansion
 - Construction of or improvements to new or existing water, sewer, gas or electric utility distribution lines, or equipment for existing buildings (new buildings are eligible for manufacturing & industrial operations)

One North Carolina Fund

TERMS & AGREEMENTS

- The amounts committed in any single fiscal biennium cannot exceed \$28 million
- Company Performance Agreement (between a local government & business)
- Local Government Grant Agreement (between State & local government)

One North Carolina Fund

PROCESS

- Allocation decisions are based on information submitted by the company, including:
 - Average wage
 - Job creation/ retention & associated timeline
 - Investment

One North Carolina Fund

FUNDING & LIABILITY

- Office of State Budget & Management cash flows the grant payments to Commerce for disbursement to companies
- \$9 million recurring appropriation, adjusted by the General Assembly as based on Commerce's Annual Funding Study (April 1st)
- Ultimately, not all companies submit for reimbursement from the program, but if all commitments were claimed, the maximum total liability would be \$48.9 million as of December 30, 2013, which extends into calendar year 2018

One North Carolina Fund

PERFORMANCE

One NC, 2007-2013

	Number of Awards	Total Initial Awards	Initially Projected		Disbursements	Actual Performance			Remaining Potential Liability
			Minimum Required New Jobs	Initial Projected Cost Per Job		Jobs Created	Jobs Retained	Cost Per Actual Job Created	
Active	188	\$58,079,768	22,258	\$2,609	\$4,838,326	3,290	36,174	\$1,471	\$50,700,586
Closed, \$0 Disbursed	93	\$17,674,590	10,209	\$1,731	N/A	N/A	N/A	N/A	\$0
Closed, Funds Disbursed	59	\$10,279,500	5,728	\$1,795	\$8,126,161	5,460	8,647	\$1,486	\$0

Source: NC Department of Commerce, October, 2013 Economic Development Grant Report

Payments to five companies have been recaptured, totaling \$925,366

	Company	Amount Recaptured
1	Philip Morris USA	\$750,000
2	Pulte Mortgage	\$55,000
3	Menlo Logistics	\$15,000
4	AmeriKart (NC) Corp	\$11,616
5	IWCO	\$93,750

Source: NC Department of Commerce, October, 2013 Clawback Report

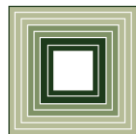
Job Development Investment Grant and One North Carolina Fund Questions?

Please Contact:

Aubrey Incorvaia, Fiscal Analyst

Natural & Economic Resources Team

aubreyi@ncleg.net or 919-733-4910



FISCAL RESEARCH DIVISION
A Staff Agency of the North Carolina General Assembly